

Weekly Macroeconomic Review

June 16, 2009

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.2% in June 0.8% in July
Future cumulative inflation – next 12 CPIs (through May 2010 CPI)	3.1%	2.7%
Inflation through May 2010 CPI (average annual rate)	2.6%	2.5%
Bank of Israel interest rate, 6 months ahead	0.85% (up 0.35)	0.85%
Fed interest rate, 6 months ahead	0.40% (up 0.15)	0.25%
Yield on Israeli Government 10-Year bond, 6 months ahead	5.90% (up 0.33)	5.75%
Yield on US Treasury 10-Year bond, 6 months ahead	3.95% (up 0.24)	4.10%
Dollar exchange rate, 6 months ahead	NIS 3.94 (unchanged)	NIS 4.02 (up 1.9%)

Israel

The consumer price index rose by 0.4 percent in May, in line with our estimates. There were no substantial surprises in the index items either.

Inflation in the last twelve months decreased to 2.8 percent, following seventeen months of levels higher than 3 percent, the upper limit of the inflation target range.

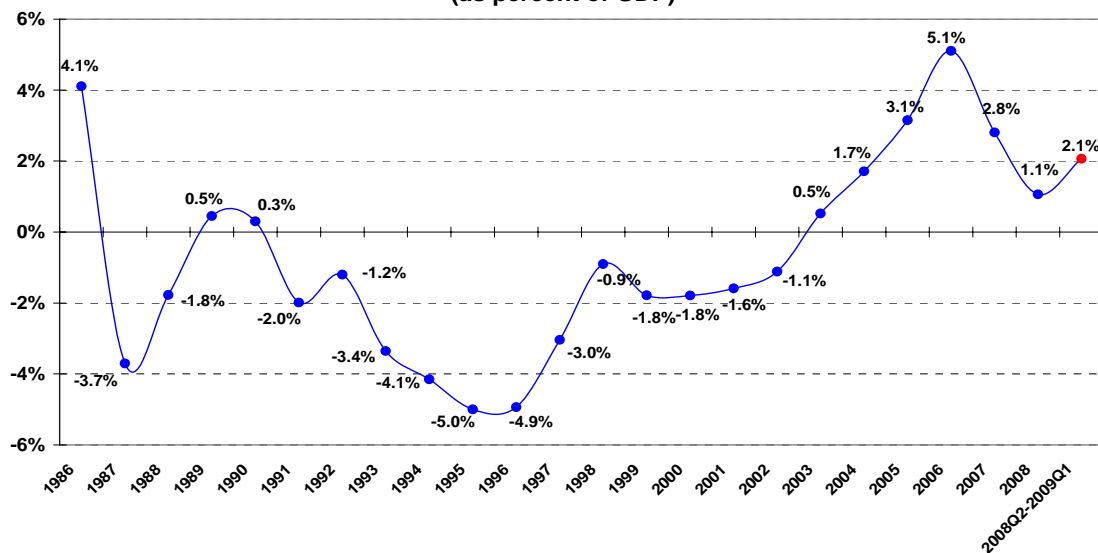
We expect the change in the June CPI to be smaller than in May, but the July CPI may rise considerably, assuming that the rate of VAT increases on July 1, as resolved by the government.

We do not expect a change in the Bank of Israel's interest rate next week.



The surplus in the current account of the balance of payments greatly increased in the first quarter of 2009, to USD 2.7 billion, versus an average of less than USD 1 billion in each of the preceding four quarters. In the last four months, the current account totaled 2.1 percent of GDP.

The Current Account (as percent of GDP)



Imports and exports dropped sharply due to the global economic crisis. The decrease in imports of goods and services, at 22 percent in dollar terms compared to the preceding quarter, was sharper than the decrease in exports, at 10 percent. **The net balance of assets and liabilities of the economy** totaled USD 4.0 billion at the end of March, similar to the end of December 2008.

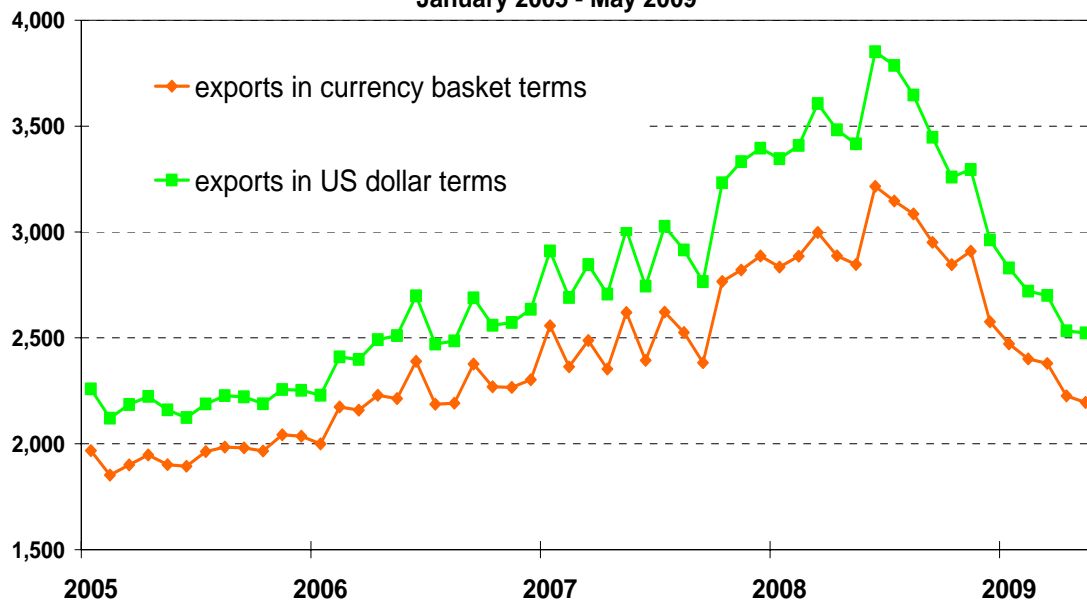
Exports of goods continued to decline in May, though at a more moderate rate than in the previous months. **Exports of goods** (in dollar terms; excluding ships, aircraft, and diamonds) decreased by 0.4 percent in May and by 26 percent in the twelve months ended in May.



Exports of Goods

(millions per month, excl. diamonds, ships & airplanes)

January 2005 - May 2009



Imports of goods decreased by 5.5 percent in May and by 39 percent in the twelve months ended in May. The decrease in imports, in particular imports of machinery and equipment, indicates an expectation that the recession will persist in the coming months.

United States

Retail sales grew by 0.5 percent in May, as expected, but remained 10 percent lower than in May 2008. Sales excluding vehicles also rose by 0.5 percent, more than expected.

Important Announcements in the Coming Week

- The Central Bureau of Statistics will publish an update of national accounting data for the first quarter of 2009, including the growth rate, on Tuesday, June 16. Data on construction starts and permits will be published in the US, and the consumer price index will be published in the euro zone.
- The consumer price index will be published in the US on Wednesday, June 17.
- The CBS will publish the industrial production index and the trade and service sectors revenues index on Sunday, June 21.
- The Bank of Israel's interest-rate decision will be announced on Monday, June 22.

This review is posted online at www.harel-finance.co.il/macro in Hebrew

and at www.harel-finance.co.il/macro/ENG in English.

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